

2007-08 REVISED FINANCING PLAN

On March 13, 2007, the Board of Supervisors approved the county's original 2007-08 financing plan. The approved agenda item and power point presentation related to the original financing plan is attached for your information.

Since March 13, 2007, there has been additional information received by the County Administrative Office, which impacted general fund financing. Below is the summary of changes recommended to the original financing plan. Detailed explanations of these changes are described below.

UNRESTRICTED - REMAINING AVAILABLE FUNDING FOR 2007-08

	General Fund	
	Ongoing	One-time
Proposed Budget Financing - March 13, 2007	9.9	19.4
Adjustments to Proposed Budget:		
Estimated New Judgeships Funding Not Needed in 2007-08	3.1	
Proposed Allocation to County Schools for self sufficiency	(1.4)	
Earmark for Special Election in February 2008		(2.0)
Subtotal:	1.7	(2.0)
Financing Available in Proposed Budget	11.6	17.4

Adjustments to Proposed Budget

Estimated New Judgeships Funding Not Needed in 2007-08 - \$3.1 million

When the County Administrative Office built its original financing plan, it assumed that the sixteen allocated judgeships to the county for 2006-07 and 2007-08 would all be hired in the beginning of 2007-08. To date no new judgeships have been hired. However, the first eight are expected to be hired by the end of 2006-07 and there is talk that the remaining eight will be filled at the end of 2007-08. Exactly when the judgeships will be filled is unknown. There also was an assumption that only six of those sixteen judgeships would perform criminal cases and therefore funding totaling \$8.3 million was provided to the District Attorney, Public Defender, Probation and Courts in the original financing plan. Now it looks like four of the first eight will be for criminal cases and therefore funding has been adjusted to \$5.2 million, a decrease of \$3.1 million. The remaining eight allocated may have three to four assigned to criminal cases but the county is assuming these will be filled at the end of 2007-08 and the funding will not be needed until 2008-09. The County Administrative Office will be monitoring these new judgeships closely and will keep you informed of the status and how it impacts the county.

Proposed Allocation to County Schools for self sufficiency – (\$1.4 million)

The County Administrative Office is currently working with the County Superintendent's office on a proposal to change the status of the Superintendent from a dependent Office of Education to an independent Office of Education. Implementation of this plan will require legislation to change the way county financial support affects state revenue coming to the County Superintendent's office. The tentative terms of the agreement will give the county a fixed Maintenance of Effort payment of approximately \$4.3 million, an increase of \$1.4 million.

Earmark for Special Election in February 2008 – (\$2.0 million)

On March 15, 2007, the Governor signed Senate Bill 113 (SB 113) that created one additional major election in 2007-08. This will result in a split of the California 2008 Primary Election, which is customarily held in June during a Presidential Primary Election cycle, into two major countywide elections that will take place on February 5, 2008 and June 3, 2008. SB 113 contains no specific appropriation provision or timetable with which to reimburse counties for the cost of the additional February 2008 election estimated at \$2.0 million. If the county is not reimbursed by June 2008, the general fund would be required to fully absorb these election costs, or absorb them temporarily until such time that the state provides reimbursement.



Summary of Unrestricted – Remaining Available Funding for 2007-08

In conclusion, the revised financing plan is projected to have unallocated, unrestricted discretionary ongoing revenues of \$11.6 million and unallocated, unrestricted discretionary one-time revenues of \$17.4 million. However, there are still issues that have not yet been addressed in the 2007-08 proposed budget such as building needs and departmental policy items.



**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS
OF SAN BERNARDINO COUNTY, CALIFORNIA
AND RECORD OF ACTION**

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March 13, 2007

FROM: MARK UFFER, County Administrative Officer
County Administrative Office

SUBJECT: POLICY DIRECTION ON 2007-08 BUDGET TARGETS

RECOMMENDATIONS:

1. Review the financing and policy issues identified in this report, including the spending and revenue projections used to develop the 2007-08 proposed budget financing plan, and the County Administrative Officer recommendations in developing budget targets.
2. Direct the County Administrative Officer to build departmental budget targets for the 2007-08 proposed budget based on the data and conclusions in this report, as modified by further Board action.

BACKGROUND INFORMATION: This report is the initial step towards development of the 2007-08 final budget. This report is used as the basis for the development of budget targets to be issued to county departments. It describes how the county is financing the 2007-08 budget targets and how much available financing remains to address other issues such as county needs and the potential negative impacts of the State and Federal budget to the county that are currently not built into the financing plan.

Components of the financing plan included in this report are:

- Analysis of the 2007-08 financing plan:
 - 1) Financing Available for 2007-08
 - 2) Cost to Maintain Current Services in 2007-08
- Issues not addressed in the 2007-08 financing plan
- State and Federal Budget Outlook
- Review of county financing policies, county reserves and ongoing set asides
- Conclusion

ANALYSIS OF THE 2007-08 FINANCING PLAN

Projections for additional financing available for next year's budget include \$59.7 million in ongoing funding sources and includes \$75.7 million in one-time sources as summarized on the chart below:

FINANCING AVAILABLE FOR 2007-08

	(In Millions)	
	Ongoing	One-time
Beginning Financial Position	0.9	
New Ongoing Discretionary Sources	45.6	
New Ongoing Prop 172 Sources	13.2	
Estimated One-time Discretionary Sources		71.5
Estimated One-time Prop 172 Sources		4.2
Total Financing Available	59.7	75.7

Record of Action of the Board of Supervisors

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BEGINNING FINANCIAL POSITION

When the 2006-07 budget was adopted as final on August 22, 2006, the remaining funds available were \$0.9 million in ongoing funds. This available money, which may be used in the current year, serves as the County's beginning financial position for 2007-08 financial planning purposes.

NEW ONGOING DISCRETIONARY SOURCES

New ongoing discretionary sources are outlined in the chart below. The growth in discretionary countywide revenues is estimated to be \$45.6 million and is based on the following.

	(In Millions) Ongoing
Property Taxes	41.7
Interest	7.8
COWCAP	4.5
Sales, Property Transfer and Other Taxes	(4.6)
Recording Fees	(2.6)
Other	(1.2)
Total New Ongoing Discretionary Sources	45.6

Property Taxes are expected to increase by a total of \$41.7 million over the current year budget. This is based on an estimated assessed valuation growth of 12% before redevelopment area tax increment and 11% net of redevelopment tax increment. Unitary revenues are expected to increase by \$1.0 million.

Interest revenue is projected to remain relatively flat to current year end estimates, which are expected to exceed budgeted amounts by \$10.8 million. Of this amount approximately \$3.0 million is earned on cash allocated to approved capital improvement project funds and so is considered one-time in nature. As a result, interest revenue is projected to grow \$7.8 million over the current year budget.

COWCAP revenue will increase by \$4.5 million over current year budget based on billing amounts published by the Auditor/Controller-Recorder.

Sales tax revenue is expected to grow 9.7% based on projections provided by a local economist. This increase is offset by revenue losses due to the Fontana Island Annexations completed in 2006-07, and by sales tax revenues that will be paid to the County's redevelopment agency to make incentive payments to Mohawk Industries. As a result, sales tax revenues are expected to decrease slightly, by \$0.2 million, as compared to the current year budget. Property Transfer Tax revenues are expected to decrease \$4.9 million over the current year budget due to the slowdown in home sales. These decreases are offset by an increase of \$0.4 million in franchise fees and \$0.1 million in other taxes.

Recording Fees are expected to decrease by \$2.6 million over the current modified budget due to the slow down in the housing market.

Other revenues are expected to decrease by \$1.2 million.

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92**NEW ONGOING PROP 172 SOURCES**

Proposition 172 (Prop 172), which became effective January 1, 1994, created a permanent half-cent sales tax to provide funding resources to qualifying public safety services. Prop 172 revenue received by the county is allocated per a formula determined by the Board of Supervisors. The current allocations are as follows: 70% Sheriff, 17.5% District Attorney, and 12.5% Probation. Each year Prop 172 is forecasted for the subsequent year using current year receipts, which has a two-month lag, and local economist predictions. Forecasted amounts are included in the applicable departmental budgets.

In 2006-07, the total amount of Prop 172 sales tax budgeted is \$154.3 million. The current 2006-07 revenue estimate for Prop 172 revenue is slightly lower than budget at \$152.8 million. Estimated growth of 9.6% in 2007-08 from the current 2006-07 projection translates into an additional \$13.2 million available to assist in financing the 2007-08 increased costs for the three departments mentioned above.

ESTIMATED ADDITIONAL ONE-TIME SOURCES

The chart below summarizes estimated additional one-time sources, totaling \$75.7 million, which will be available for the 2007-08 budget.

	(In Millions) One-time
Contingencies Per County Policy/Set Asides Not Used in 2006-07	40.4
Departmental Operation Savings in 2006-07	5.6
Additional Countywide Discretionary Revenue Not Used in 2006-07	25.5
Prop 172 Revenue Not Used in 2006-07	4.2
Estimated One-Time Sources Available for 2007-08	75.7

Analysis of the 2006-07 contingencies budget results in projections that the 1.5% contingency set-aside required by County policy will remain unspent at the end of the fiscal year. In addition, the ongoing contingencies set asides for future space needs and retirement will also remain unspent at the end of the fiscal year. Furthermore, a portion of the ongoing contingency set-aside for jail expansion will remain unspent. The combined total for these unspent contingencies results in \$40.4 million in one-time money for use in the 2007-08 financing plan.

Estimated departmental operation savings in 2006-07 of \$5.6 million will also be available for one-time expenses in 2007-08.

In addition, in the current year, there are a variety of revenue sources that are expected to exceed modified budget or remain unspent in 2006-07. Those revenue sources are the countywide discretionary revenue, specifically interest and supplemental property tax, and Prop 172 revenue. This unexpected increase or unused revenue totaling \$29.7 million is available for one-time expenses in 2007-08.

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COST TO MAINTAIN CURRENT SERVICES IN 2007-08

The prior section of this report addressed the financing available for 2007-08. This section will address increased costs in 2007-08 to maintain current services. The chart below summarizes the adjustments to prior year's budget that are included in the financing plan for both ongoing and one-time costs. Following the chart is a brief description of each cost component.

	(In Millions)
MOU Increases	16.9
County Staffing Needs for Six New Judgeships	8.3
Retirement Increases	4.3
Insurance	4.2
Inflation	1.9
Information Services Adjustment	1.8
Central Computer	1.7
Set Aside for Sheriff Prop 172 10% Contingency	1.1
Other Internal Service Rate Increases	1.0
Increase in County Fire General Fund Subsidy	0.9
Other Departmental Costs	0.9
High Desert Juvenile Detention Center	0.8
Prop 172 Available – District Attorney	0.7
Other Unavoidable Costs	<u>5.3</u>
Ongoing Costs Subtotal	49.8
Contribution to Specific Reserves:	
Contribution to Future Space Needs Reserve	20.0
Contribution to Retirement Reserve	7.9
Contribution to Jail Expansion Reserve	2.4
Contribution to Business Process Improvement Reserve	2.4
Estimated Departmental Savings to Reserves	3.2
Prop 172 Available	4.2
Financing for CIP projects	2.0
Variable Debt Savings to Pay Down Debt per Board Policy	0.4
Maintain Contingencies per Board Policy	8.6
Contribution to General Purpose Reserve per Board Policy	<u>4.8</u>
One-Time Costs Subtotal	55.9
Total Increased Costs	105.7

MOU INCREASES - \$16.9 MILLION

The Memorandum of Understanding between the county and the following representations units: general, attorney, specialized peace officers, and specialized peace officers – supervisory are in their last year of their respective three year agreements. The safety unit and the safety management and supervisory unit are in their third year of their respective agreements that end in February 2009. Additionally, the exempt compensation plan is also in its last year of a three year agreement. The net local cost associated with these negotiated salary and benefit adjustments is \$16.9 million in 2007-08.

The agreements between the county and the nurses unit and the nurse per diem unit expire on August 2007 and October 2007, respectively. Therefore, MOU increases for these units were not factored in the costs to maintain current services for 2007-08.

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COUNTY STAFFING NEEDS FOR SIX NEW JUDGESHIPS - \$8.3 MILLION

Cost for judgeships were based on the assumption that six of the 16 anticipated judgeships for 2006-07 and 2007-08 would staff criminal courtrooms. Costs are based on full year funding and would add the following positions and associated costs to the departments listed: District Attorney, 26.7 positions at a cost of \$3.9 million; Probation, 18.0 positions at a cost of \$1.8 million; Public Defender, 17.4 positions at a cost of \$2.5 million; and Courts \$0.1 million for judicial benefits. Since the timing of the judgeships is uncertain, the departments will not receive authorization to fill the positions corresponding to the judgeships until the county receives official notification of the judicial appointments.

RETIREMENT INCREASES - \$4.3 MILLION

Employer retirement contribution rates are comprised of two rates, which are stated as a percentage of earnable compensation: the rate set actuarially by the San Bernardino County Employees Retirement Association (SBCERA) and the rate set by the County to cover payment of the existing pension obligation bonds (POBs).

In 2007-08, the SBCERA rate for general employees decreases 0.21% and the POB rate increases 0.60% for a net increase of 0.39%. The SBCERA rate for safety employees decreases 0.85% and the POB rate increases 0.30% for a net decrease of 0.55%. As a consequence of these rate changes and the increases in earnable comp as a result of the MOUs, general employee local cost will increase \$3.8 million and safety employee local cost will increase \$0.5 million for a total local cost increase of \$4.3 million.

INSURANCE - \$4.2 MILLION

On February 27, 2007, the Board approved the 2007-08 Risk Management insurance premiums which resulted in a net increase of \$5.7 million. This increase was necessary for the fund balances in the insurance funds to achieve an 80% actuarially acceptable confidence level by June 30, 2008. The increase will enable programs to continue operating in a fiscally prudent manner without being over-funded. The financing plan incorporates the increase in local cost of \$4.2 million which results from increases in auto liability, law enforcement liability, and property insurance premiums.

INFLATION - \$1.9 MILLION

A general inflation rate of 2.0% was used in the development of the 2007-08 budget. Inflation-related increased costs of goods and services based on this rate are projected to require an additional \$1.9 million in local funding.

INFORMATION SERVICES ADJUSTMENTS - \$1.8 MILLION

Information Services Department (ISD) is proposing network services rate adjustments totaling \$1.3 million, which are included on a separate March 13, 2007, board agenda item. These rates finance the County's communications network, which includes design, operation, maintenance, and administration of the telecommunications phone network, microwave transport network, and the public safety radio and paging systems. A rate analysis was conducted and revealed that the rates related to radio access and maintenance were not recovering costs and needed significant increases, whereas the telephone rates required slight decreases. In prior years, the general fund has subsidized radio access rates in the amount of \$472,418. Beginning in 2007-08, radio access costs for all general fund departments will be fully funded through general fund financing at the appropriate \$38.00 per radio/month rate. The increase is needed to maintain current service levels and recover anticipated cost increases in MOU, retirement, inflation, equipment, and other priority expenses. The rate increase does not provide for an increase in working capital. The financing plan incorporates the general fund financing necessary to maintain current radio access service levels and recover actual costs.

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In addition, beginning in 2007-08, the general fund will finance the multi-media unit. In prior years, the financing of this unit has been included in the network services rate; however, this unit's primary function is to provide multi-media services to the Government Center. The financing plan incorporates the \$488,000 required to meet expected service levels.

CENTRAL COMPUTER - \$1.7 MILLION

ISD is proposing a 7% increase in computer operations rates (2410). The proposed rates are included on a separate March 13, 2007, board agenda item. The computer operations rates finance the management, operations, and systems support of the central computer unit/system (CPU) which consists of approximately 160 servers located in the data center. The rate also includes printing, security and virus protection, data storage and recovery, e-mail, wide area network (WAN), local area network (LAN), help desk, and document management and imaging services. The increase is needed to maintain current service levels and recover anticipated cost increases in MOU, retirement, inflation, equipment, and other priority expenses. The rate increase does not provide for an increase in working capital. The financing plan incorporates the local cost portion resulting from proposed rate increases.

SET ASIDE FOR SHERIFF PROP 172 10% CONTINGENCY-\$1.1 MILLION

The Board of Supervisors adopted a policy on February 13, 2007, which established having a contingency for Prop 172 revenue targeted at 10% of ongoing Prop 172 revenue. Currently, the District Attorney and Probation have achieved that contingency amount and the County Administrative Office has developed a plan for the Sheriff department to meet that objective in five years. In 2007-08, \$1.1 million of the Prop 172 growth for the Sheriff department will be placed in contingency.

OTHER INTERNAL SERVICE RATE INCREASES - \$1.0 MILLION

Rate increases for internal services of the county were approved by the Board of Supervisors on February 27, 2007. Of these approved rates, increases for Fleet Management and Central Mail Services charges resulted in a \$1.0 million increase in local funding.

INCREASE IN COUNTY GENERAL FUND SUBSIDY - \$0.9 MILLION

On December 13, 2005, the Board approved the addition of three new engineer/paramedics suppression positions at each of two fire stations (Devore and Mentone). When approved, it was known that beginning in 2007-08 ongoing general fund financing of \$853,576 would be required. In addition, the subsidy of the Office of Emergency Services increased by \$21,965 for inflationary purposes.

OTHER DEPARTMENTAL COSTS - \$0.9 MILLION

Included in the 2007-08 budget target is \$500,000 for the expansion of the Service First program and \$400,000 for the expansion of the legislative program.

HIGH DESERT JUVENILE DETENTION AND ASSESSMENT CENTER - \$0.8 MILLION

By December 2005, the county was contractually obligated to utilize 100 beds at the High Desert Juvenile Detention and Assessment Center. The Average Daily Population through June 2006 was 99. Based on need, 20 additional beds were staffed and opened in October 2006, and population has averaged 108-114 beds in use. Note that classification issues sometimes prevent the use of both beds in a cell. Based on population projections, another 20 beds will open by year end, bringing the total need to 140 beds. Staff expects that this level of occupancy will be sufficient throughout 2007-08. However, since these beds were opened mid-year, and costs were pro-rated for that reason, additional general fund financing of \$0.8 million is required in 2007-08 to fully fund the existing 33 positions added in 2006-07 plus pro-rated services, supplies and equipment costs.

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PROP 172 AVAILABLE – DISTRICT ATTORNEY - \$0.7 MILLION

The District Attorney is allotted 17.5% of all Prop 172 revenue received; this translates to a proposed budgeted amount of \$29,312,500 for 2007-08. Of the proposed budgeted amount, \$2,310,000 represents the increase over the 2006-07 final budget allocation. Approximately 70% of this amount will be used to fund increased MOU, retirement and insurance costs. The remaining amount available to the District Attorney (approximately \$0.7 million) is unallocated at this time.

OTHER UNAVOIDABLE COSTS - \$5.3 MILLION

There are several costs totaling \$5.3 million that the county can not avoid next year because of one of the following situations: the costs were previously approved by the Board of Supervisors, the costs are required to maintain county buildings, the costs are mandated by the state or other agreement, or there are significant known and unavoidable, one-time termination costs that cannot be absorbed utilizing the budget units existing funding sources.

CONTRIBUTIONS TO SPECIFIC RESERVES - \$32.7 MILLION

The Board of Supervisors approved ongoing set asides totaling \$30.3 million for specific purposes discussed later in this agenda item. The County Administrative Office is recommending placement of any unspent money from these set asides in a one-time reserve for the same purpose so there is sufficient funding in both one-time and ongoing sources. Additionally, this office is recommending a contribution of \$2.4 million to the Business Process Improvement Reserve in order to keep the available funding at the \$3.0 million level originally established.

DEPARTMENTAL SAVINGS TO RESERVES - \$3.2 MILLION

The Board of Supervisors approved a policy that when the Board approves a large departmental project, that department's year end savings will be placed in a reserve to assist in funding that project. The Probation department is requesting that their savings be used to build a new Central Juvenile Hall. In addition, it is projected that the fiscal group will be coming forward to the Board of Supervisors with an agenda item to support a Unified Property Tax system. Currently, those departments' savings are estimated at \$3.2 million.

PROP 172 AVAILABLE - \$4.2 MILLION

One-time Prop 172 funds are available to the District Attorney (\$2.1 million) and Probation (\$2.1 million).

FINANCING FOR CIP PROJECTS - \$2.0 MILLION

The county is currently renovating the purchased 303 building and will require an additional \$2.0 million for exterior and parking lot improvements.

VARIABLE RATE DEBT SAVINGS - \$0.4 MILLION

Per Board policy, any interest savings on variable rate debt will be used in the succeeding fiscal year to reduce the total outstanding principal amount of long-term debt.

CONTINGENCIES/CONTRIBUTION TO GENERAL PURPOSE RESERVE - \$8.6 MILLION/\$4.8 MILLION

These funding recommendations are based on established county policy discussed later in this agenda item.

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ISSUES NOT ADDRESSED IN THE 2007-08 FINANCING PLAN

In developing the financing plan, \$105.7 million of the financing available for 2007-08 has been allocated to maintain current services. The remaining financing available may be utilized to address needs that are not funded in the financing plan, such as the county needs listed below and the potential State and Federal budget negative impacts to the county referenced in the following section.

COUNTY NEEDS

As mentioned last fiscal year, the County's needs and responsibilities to its constituents continue to increase as a result of population growth. This continued growth obligates the County to develop plans for areas affected by growth, such as new facilities, existing facilities and equipment, staffing and programs. In addition, two areas of concern not affected by growth are also mentioned.

New Facilities

The county continues to explore various alternatives to meet its growing office space requirements and to address its aging buildings and infrastructure. Various sites for new facilities have been under consideration, both in the San Bernardino and High Desert areas. The Board is also considering different types of government center settings both in urban and more rural locations. These centers include a combination of low, mid, and high-rise building concepts in various campus settings. Decisions on sites and design concepts are expected to be made by mid-2007 with plans underway for new facilities in 2007-08.

While steps have been taken to secure funding via establishing reserves, these reserves need to be significant enough to accommodate changes in growth/expansion as well as changes in the economy that drive the costs of new facilities.

Existing Facilities and Equipment

In addition to the need for new or expanded County facilities, existing County-owned facilities and equipment also must receive preventative maintenance, repair and/or replacement. While the County has made significant strides in allocating funds to the capital improvement program (CIP) there continues to be a concern for changes resulting from increased costs for goods and services. Consequently, this area is one that must be continually monitored as the economy plays a significant role in the maintenance and repair of facilities and equipment.

One major area of need that continues to be of significant concern is the County's 800 MHz radio infrastructure. This infrastructure system was completed in 1989 and it serves the communication needs of the County-governed programs, including public safety agencies of law enforcement and fire, emergency medical services and general governmental functions. Equipment located in sites/towers throughout the County needs to be upgraded in order to maintain this required communication service. The original equipment, which was purchased with a 1985 bond issue and augmented with a subsequent 1988 bond issue, is reaching the end of its useful life.

Staffing and Programs

Last year, the County Administrative Office mentioned that growth in the county not only affects the need for additional facilities and equipment, but it also impacts the need for additional departmental staffing and programs. The area of expanding and restoring staffing and programs in various county departments continues to exist and county departments have again submitted numerous policy items for consideration with their proposed budgets.

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Termination Benefits

The County Administrative Office has been monitoring termination benefit costs over the past several years. A recent review of the potential costs that would result from the retirement of several of the county's senior, high-level employees warrants consideration of a possible set-aside, as some county departments are simply unable to bear the burden of these unavoidable costs.

Potential Litigation

Although the County has taken the appropriate steps and measures to minimize exposure to litigation; and the county has strengthened its self-insurance funds to protect county assets and resources, there is still the vulnerability of unfunded potential litigation. Therefore, the County Administrative Office recommends this area of exposure be considered for potential funding.

STATE AND FEDERAL BUDGET OUTLOOK

Recognizing that the state and federal budget process is in its early stages, San Bernardino County's preliminary financing plan for 2007-08 assumes no state or federal budget impacts until such time as the state and federal budgets are formally adopted. However, an evaluation of those potential impacts is elaborated on in the following section.

STATE BUDGET IMPACT

On January 10, 2007, the Governor's Proposed Budget for 2007-08 was announced. The County Administrative Office enlisted departments' assistance in identifying specific budget impacts. If the January 10th budget submitted by the governor is adopted, the fiscal impact to the County of San Bernardino is described below.

Key state budget issues of interest to counties include:

Property Tax Administration Program (PTAP): This program was created to provide California Assessors additional funding to reduce workload backlog. This agreement provided the San Bernardino County Assessor's office with \$2.1 million of state funds. As part of the Governor's 2005-06 budget, the funding of this program has been postponed for two years. The California Assessor's Association has been working with the State Department of Finance to re-instate the funding or create a replacement program but has not been successful so far.

In order to maintain the current workload in 2007-08, the entire \$2,139,938 from the county general fund will continue to finance this program. The funding enables the Assessor to complete all the workload as mandated in the Revenue and Taxation code. Without these funds, the Assessor's office will lose approximately 30 positions and this loss will significantly impact the ability to complete the annual property tax roll.

Transportation Funds: In 2007-08, the Department of Public Works - Transportation is budgeting \$15 million in new State revenues from Proposition 1B - Local Streets and Roads. Additionally, the department will not receive any Proposition 42/AB2928 funds in 2007-08, as it did in 2006-07 (\$12.8 million), as was stipulated in the original AB2928 legislation. Proposition 42 funding will resume in 2008-09.

State Grants: There is new money available for a state "Comprehensive Sex Offender Management Plan" that includes \$6 million for Sexual Assault Felony Enforcement Teams; the Sheriff department will compete for this money in 2007-08.

Jail Construction: The state is still proposing to add thousands of new (local) jail beds for adults, with \$2.5 billion available for adult beds; \$500 million of which will be local match. An additional \$2 billion has been proposed for state jail construction for re-entry of prisoners with three years or less on their sentences. The state has proposed creating legislation that may make these prisoners the responsibility of

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the counties. This item is currently being negotiated and it is premature to start forecasting estimates for ongoing costs.

Prison Reform: The Department of Juvenile Justice (DJJ) is proposing to begin shifting the juvenile population from state to local facilities, keeping only the most serious and violent male juvenile offenders. Currently, the County has only 2 female and 12 male juveniles in DJJ for lower level offenses. Block grants would provide resources to support the program on a sliding scale to account for local cost that would have been paid to the state. However, proposed funding from the state would likely fall short of the cost for all required services. Funding could also diminish over time, dependent upon action by the courts.

Staff estimates that 187 minors on DJJ parole would be assumed by the County at an estimated cost of \$1.6 million. These costs may be offset in part by the funding for adult probationers.

Proposition 36: Currently, it is expected that funding for Prop 36 will be cut, with a proportionate increase in funding to the Offender Treatment Program, but that overall "resources" will remain intact. The shift would allow for latitude at the state level to make adjustments to programmatic requirements. The current proposal by the State suggests that a 10% County match may be required.

FEDERAL BUDGET IMPACT

President Bush released his proposed budget for 2007-08 on February 5, 2007. The proposed budget calls for reducing the federal deficit by 2012, focusing on the highest priority of security for the nation and keeping non-security discretionary spending below inflation. Additionally, the federal budget proposes to slow the rate of growth in Social Security, Medicare, and Medicaid programs by challenging entitlements. The County Administrative Office, with the assistance of affected departments, has attempted to identify specific federal budget impacts to the County of San Bernardino.

Key federal budget issues of interest to counties include:

SCAAP Reimbursements: The federal budget does not include funds for State Criminal Alien Assistance Program (SCAAP) reimbursements for 2007-08; the state budget assumes it will be funded based on past history. If reimbursements are not made, the Sheriff's department would lose approximately \$500,000 annually. It is not considered a reliable or timely source for budgeted revenue; therefore, the impact—if not funded—would be minimal.

Federal Matching Funds: The Department of Child Support Services anticipates a reduction of \$3.6 million as a result of the Deficit Reduction Act of 2005 which eliminates obtaining federal matching funds for expenditures of child support incentive payments. However, the Governor's budget proposes to backfill this loss from the state General Fund in order to draw additional funds from the Federal Financial Participation. Thus, the net impact to the County is zero.

Social Services Block Grant (SSBG): For the second year in a row, the administration is proposing to cut Title XX by 30 percent, reducing overall funds from \$1.7 billion to \$1.2 billion in FFY 2008. This cut was rejected last year by a bipartisan group of Senators and Representatives. The administration argues that, due to the flexibility in the program, SSBG overlaps a number of other social services programs and there is no assessment of its effectiveness. For San Bernardino County, this would result in a reduction of \$1.1 million in Child Welfare Services funds.

Community Services Block Grant (CSBG): Once again, the administration is proposing termination of the \$630 million CSBG program. Previous Congresses have rejected the proposal. For San Bernardino County, this would result in a reduction of \$313,000 in Adult Protective Services funds.

County Administrative Office staff will continue to monitor the state and federal budgetary process. Legislative reactions to these proposals will provide further insight regarding the local impacts to San Bernardino County.

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COUNTY FINANCING POLICIES

The county has adopted a formal budget financing policy and a reserve and contingency policy. The key elements of these policies are described below:

BUDGET FINANCING POLICY

- One-time funds will not be used to finance ongoing operational costs, except within the context of a larger plan to balance ongoing revenues and costs over a multi-year period.
- No less than one-third of one-time sources will be allocated to increasing reserves to the 10% target level as defined in the County's Reserve and Contingency Policy.
- Ongoing set-asides unspent at the end of the fiscal year shall be transferred into a corresponding general fund reserve account as of June 30.

RESERVE AND CONTINGENCY POLICY

- The county shall establish an ongoing general purpose reserve for the general fund targeted at 10% of locally funded appropriations.
- The county will maintain an appropriated contingency for the general fund to accommodate unanticipated operational changes, legislative impacts, or other economic events affecting the county's operations, which could not have been reasonably anticipated at the time the budget was prepared. The contingency shall be targeted at no less than 1.5% of locally funded appropriations.
- The county will maintain an appropriated contingency for Prop 172, Realignment and Master Settlement Agreement funds to accommodate unanticipated operational changes, legislative impacts, or other economic events affecting these restricted financing streams, which could not have been reasonably anticipated at the time the budget was prepared. The contingency shall be targeted at no less than 10% of current year budgeted revenues.
- The county will fund specific project reserves for large departmental projects through the use of the respective department's local cost savings.

Locally funded appropriations is defined as those appropriations which are funded by discretionary, unrestricted property tax, sales tax, interest income, and other revenues not linked to specific programs.

For 2007-08, the locally funded appropriations are projected to be \$572.1 million. A general purpose reserve requirement of 10% would be \$57.2 million and an appropriated contingency of 1.5% would require \$8.6 million.

The financing plan includes \$8.6 million in the county contingency budget and recommends a contribution of \$4.8 million to the general purpose reserves to satisfy the requirements of these policies.

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COUNTY RESERVES

The county has a long established conservative approach to budgeting; because of this approach the County has several types of reserves. Some reserves are for specific purposes, such as to meet future known obligations or to build a reserve for capital projects. The general reserves are funds held to protect the county from unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the county. All of these reserves are one-time in nature and can only be used as a temporary fix. They are not viewed by staff as appropriate remedies for ongoing problems.

A listing of those reserves and the planned contributions are shown below:

	Estimated June 30, 2007 Balance	Recommended Contribution /(Use)	Estimated June 30, 2008 Balance
General Purpose Reserves	52,456,025	4,759,292	57,215,317
Specific Purpose Reserves			
Future Space Needs	20,000,000	20,000,000	40,000,000
Retirement	30,700,000	7,900,000	38,600,000
Medical Center Debt Service	32,074,905	0	32,074,905
Jail Expansion	16,400,000	7,000,000	23,400,000
Teeter Reserve	17,747,201	0	17,747,201
Juvenile Maximum Security	9,392,986	1,900,000	11,292,986
Capital Projects	4,000,000	0	4,000,000
Business Process Improvement	616,878	2,383,122	3,000,000
Insurance	3,000,000	0	3,000,000
Moonridge Zoo	2,750,000	0	2,750,000
Restitution	1,865,025	0	1,865,025
Unified Property Tax System	0	1,300,000	1,300,000
Electronic Voting	500,000	0	500,000
Justice Facilities	119,316	0	119,316
Total Specific Purpose	139,166,311	40,483,122	179,649,433
Total Reserves	191,622,336	45,242,414	236,864,750

Based on the reserve policy established by the County that states a reserve is maintained at a 10% level of locally funded appropriations, the mandatory 2007-08 contribution is \$4.8 million, as listed above. This contribution is required to bring the general purpose reserve balance to the required target level of \$57.2 million.

The total specific purpose reserves has a net increase of \$40.5 million and is composed of the following: 1) placing a total of \$34.9 million of the unspent ongoing set asides for future space needs, retirement and jail expansion (discussed in more detail below) in the same purpose reserve, 2) placing a total of \$3.2 million of departmental local cost savings to the Juvenile Maximum Security and Unified Property Tax System Reserves, and 3) placing an additional \$2.4 million in the Business Process Improvement Reserve to maintain the \$3.0 million level originally designated.

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ONGOING SET ASIDES

As seen by the total reserves amount above, the county has set aside a considerable amount of one-time money that can assist the county temporarily for unforeseen increases in expenditure or reductions in revenues. However, prior to 2004-05 there has never been any money set aside to permanently address future foreseen increases in ongoing expenditures. In 2007-08, the county is again in a position to set aside ongoing revenue sources to finance future ongoing expenditures in three different areas: future space needs, retirement and jail expansion.

FUTURE SPACE NEEDS ONGOING SET ASIDE

Beginning in 2006-07, the Board has set aside \$20.0 million to address future space needs. This is based on a building analysis completed by staff. The space needs of the county continue to grow based on expansion of the area and the programs that service the county's growing population.

RETIREMENT ONGOING SET ASIDE

For the past several years, the County has seen significant retirement cost increases and predicts additional future increases based on unfunded liabilities that have occurred primarily as a result of lower than expected market returns and increased retirement costs. The Board has set aside \$7.9 million in ongoing revenue sources to assist in financing these cost increases at a future date.

JAIL EXPANSION ONGOING SET ASIDE

The Board has set aside \$7.0 million for increased jail space due to the growing inmate population.

CONCLUSION

This report has identified \$59.7 million in ongoing financing available and \$75.7 million in one-time financing available for 2007-08. This report also recommends to use \$49.8 million in ongoing financing to fund increased costs to maintain current services and \$55.9 million in one-time financing to adhere to county policy, finance capital improvement projects and reserve unspent ongoing set asides. After financing these increased costs, the county is projected to have available discretionary ongoing revenues of \$9.9 million and available discretionary one-time revenues of \$19.8 million.

SUMMARY OF 2007-08 FINANCING PLAN

	(In Millions)	
	Ongoing	One-time
Financing available	59.7	75.7
Cost to Maintain Current Services	(49.8)	(55.9)
2007-08 County Surplus	9.9	19.8

At this time, the County financing plan has a surplus as illustrated in the above chart. However, as previously mentioned there are several significant issues that were not addressed in this 2007-08 financing plan.

The County Administrative Office will continue to monitor the state and federal budget process which are not addressed in the plan. Additionally, this office will further refine the County needs, which were briefly mentioned here, that are also not addressed in the plan.

This office will also continue to refine our own estimates of ongoing and one-time revenues available for next fiscal year. Furthermore, we will continue to account for other mid-year board actions that affect this plan and any other pending costs the County must face in 2007-08.

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A revised financing plan will be distributed to the Board of Supervisors with the submittal of the proposed budget. Additionally, the Board will continue to receive updates on the County needs so that these areas may be given consideration during the annual budget process.

REVIEWED AND APPROVED BY OTHERS: This item has been reviewed by County Counsel (Ruth Stringer, Acting County Counsel, 387-5451) on March 8, 2007.

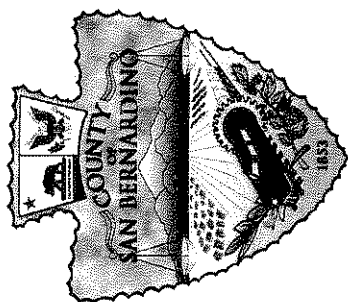
SUPERVISORIAL DISTRICT(S): All

PRESENTER: Dean Arabatzis, Assistant County Administrative Officer (387-5418)

Rev 07/97

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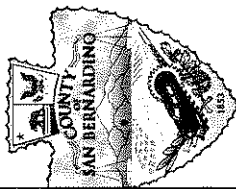


2007-08 Budget Financing Plan

March 13, 2007



Summary of 2007-08 Revised Financing Plan



	(In Millions)	
	Ongoing	One-time
Financing Available	59.7	75.7
Cost to Maintain Current Services	(49.8)	(55.9)
2007-08 County Surplus	9.9	19.8



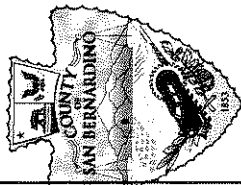
2007-08 Ongoing Discretionary Sources

(In Millions)

	2006-07	2007-08	Difference
Property Taxes (Assumes 12% AV)	393.3	435.0	41.7
Sales, Property Transfer and Other Taxes	51.6	47.0	(4.6)
Interest	23.2	31.0	7.8
COWCAP	20.7	25.2	4.5
Property Tax Administration	12.8	13.8	1.0
Recording Fees	11.2	8.6	(2.6)
Other	11.8	11.5	(0.3)
2007-08 Discretionary Revenue*	524.6	572.1	47.5
Operating Transfers In	20.5	19.1	(1.4)
Reimbursements	0.5	-	(0.5)
Total Ongoing Discretionary Sources	545.6	591.2	45.6
			8%
			Increased by 4.5

*Used to calculate 10% General Purpose Reserve

Additional Ongoing Costs to Maintain Current Services

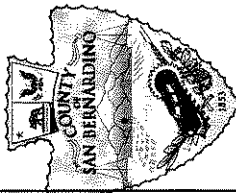


	(In Millions)	
	<u>2/12/07</u>	<u>2/26/07</u>
2007-08 MOU Increases	15.9	16.9
County Staffing Needs for 6 New Judgeships	8.3	8.3
Retirement		4.3
Insurance - 80% targeted funded level (\$203 M)	4.2	4.2
2% Inflation	2.1	1.9
Information Services Adjustments	1.6	1.8
Central Computer	1.6	1.7
Set Aside for Sheriff Prop 172 10% Contingency	1.1	1.1
Other Internal Service Rate Increases	1.0	1.0
Increase County Fire General Fund Subsidy	0.9	0.9
Other Departmental Costs	0.9	0.9
High Desert Juvenile Detention Center	0.8	0.8
Prop 172 Available for District Attorney	0.7	0.7
Other Unavoidable Costs	5.3	5.3
Total Ongoing Costs	44.4	49.8
		Increased by 5.4



Standard & Poor's (S&P) Concerns

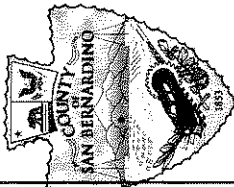
- County's dependence on government employment is an issue
- Lower than average income levels
- Lack of a Swap Policy (we have not chosen to implement a swap policy because we do not anticipate entering into any more – we will move forward with adopting a policy to address this concern)



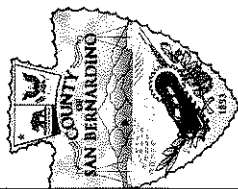
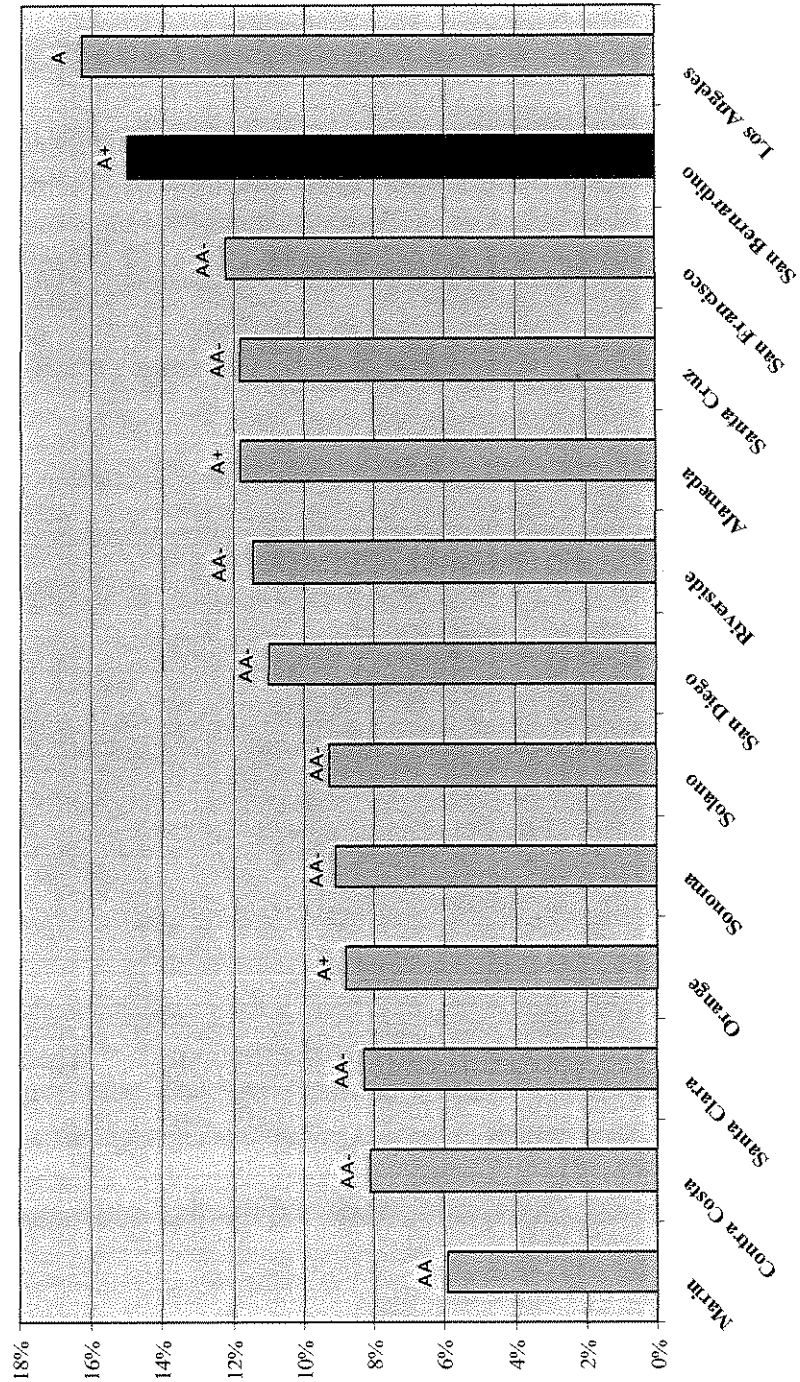
S&P Upgraded

County Credit Rating on 2/27/07

- Certificates of Participation upgraded from A to A+ (Highest Rating = AAA)
- Implied Issuer Rating of AA- (not previously rated) (Highest Rating = AAA)
- S&P Financial Management Assessment rated "Strong" – S&P's highest rating

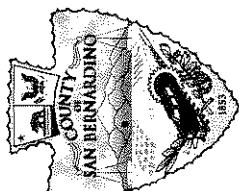


Percent of People with Income Below Poverty Level Selected California Counties U.S. Census Bureau - 2005 Community Survey



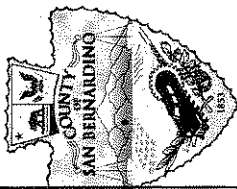
S&P Rationale for Upgrade

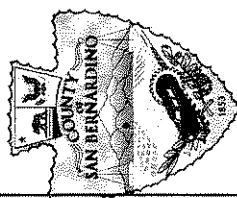
- Management practices are strong, embedded, and likely sustainable based on adoption of formal policies
- Reserve and Contingency policies allowing for 10% reserves, 1.5% contingency
- Ongoing Set Asides to fund future capital needs (government center, jail expansion)



S&P Rationale for Upgrade

- Standing Debt Advisory Committee
- Debt Policy limiting variable rate exposure to 25% of outstanding debt
- Strong long term planning: 5-year forecasts for CIP and Budget
- Lack of Other Post Employment Benefits (retiree health liabilities)



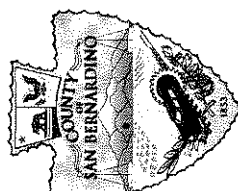


S&P Rationale for Upgrade

- Relatively affordable median home price
- Declining unemployment rate following many high years after base closings



Incremental Revenue from 2007-08 Proposed Fees



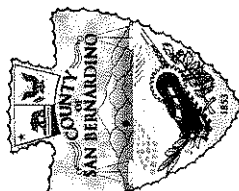
(In Millions)

Airports	0.1
Auditor/Controller-Recorder	1.7
Clerk of the Board	0.1
County Counsel	0.2
County Library	0.1
Human Resources	0.1
Land Use Services	0.2
Probation	0.1
Public Health	0.1
Public Works - Solid Waste Management	0.2
Regional Parks	0.1
Treasurer-Tax Collector/Public Administrator	0.4
Total Incremental Revenue	3.4



2007-08 Proposed Radio Rates

Impacts on Outside Agencies



	<u>Current Scenario</u>		<u>Revised Scenario</u>	
	2007-08 Proposed Rate	2008-09 Proposed Rate	2007-08 Alternative Rate	2008-09 Proposed Rate
Cost per Radio	\$ 38.00	\$ 44.00	\$ 32.00	\$ 44.00
Total Incremental Ongoing Impact to Outside Agencies	\$ 840,000	\$ 412,000	\$ 430,000	\$ 822,000
Loss of Revenue to ISD	None		\$ 410,000	

NOTE: Current rate is \$26.87 per radio

